

Walgreens
THE LEADERSHIP PEOPLE

1973
ANNUAL
REPORT

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CORPORATION FILE



The instinct for innovation is one hallmark of a leadership company. So the eight members of the *Walgreen Planning Committee* bring open minds as well as broad company experience and expertise to each planning session.

Their assignment is to set the company's stance toward the future—to explore new ideas; analyze company strengths and opportunities; chart objectives and strategies; program action plans; assess progress; and communicate with management groups for full participation toward both near targets and long-term growth goals.

The committee's constant objective: *To develop consistently greater returns on our growing assets.*

Photo: The Walgreen Planning Committee

Top row: Charles D. Hunter, Mirrel R. Kephart, Fred F. Canning, James A. Davlin

Center: Robert L. Schmitt, Charles R. Walgreen III, H. Richard Drews

Foreground: William J. Wienke

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Walgreen Co.

GENERAL OFFICES: 4300 Peterson Avenue,
Chicago, Illinois 60646

DIRECTORS

CECIL R. CAMPBELL	ARTHUR C. NIELSEN, JR.
WALTER E. COHEN	SOL S. RAAB
JOHN E. JEUCK	ROBERT L. SCHMITT
MIRREL R. KEPHART	CHARLES R. WALGREEN III
JAMES MITCHELL	CHARLES R. WALGREEN, JR.

LEADERSHIP

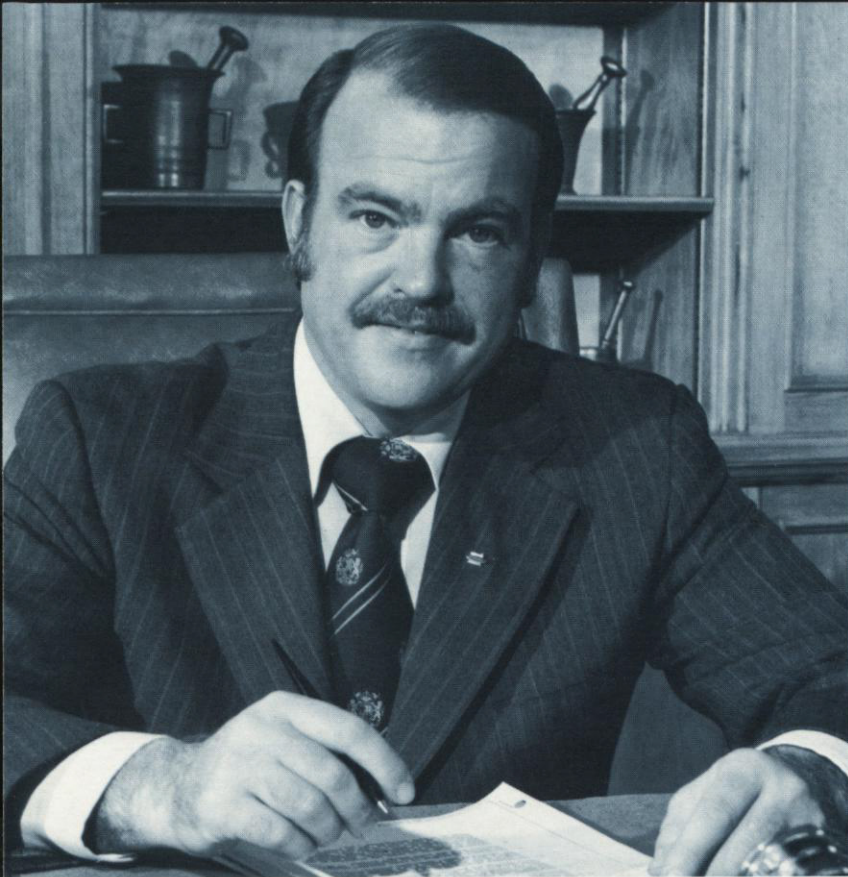
Planning
that
Constantly
Challenges
the Future

OFFICERS

CHARLES R. WALGREEN III, PRESIDENT

FRED F. CANNING VICE PRESIDENT <i>Marketing</i>	THOMAS J. BARTON SECRETARY
H. RICHARD DREWS VICE PRESIDENT <i>Human Resources</i>	L. ALAN CROTTY CONTROLLER
CHARLES O. ELSON VICE PRESIDENT <i>Purchasing</i>	JAMES A. DAVLIN TREASURER
CHARLES D. HUNTER VICE PRESIDENT <i>Administration</i>	JOSEPH M. LAY GENERAL AUDITOR
MIRREL R. KEPHART VICE PRESIDENT <i>Franchising, Wholesaling, Manufacturing</i>	COLETTE HANNAN ASSISTANT TREASURER
JOHN E. KLOCKE VICE PRESIDENT <i>Drug Store Operations</i>	THOMAS P. JOYCE ASSISTANT SECRETARY
ROBERT L. SCHMITT VICE PRESIDENT <i>Store Operations</i>	JOEL H. LEVIN ASSISTANT SECRETARY
ROBERT J. TELFER VICE PRESIDENT <i>Store Merchandising</i>	N. EDWARD NILSSON ASSISTANT TREASURER
WILLIAM J. WIENKE VICE PRESIDENT <i>Physical Resources</i>	JOHN F. RICHTER ASSISTANT CONTROLLER
	SYLVIA SOMMERS ASSISTANT SECRETARY
	RAYMOND W. WIRSING ASSISTANT CONTROLLER

YOUR DECEMBER 12, 1973 DIVIDEND marks the 164th
consecutive quarterly dividend paid by Walgreen Co.



December 10, 1973

TO OUR SHAREOWNERS:

As the year's highlights indicate, your company moved forward strongly in fiscal 1973, registering all-time records in both sales and earnings.

Sales volume of \$930,898,958 topped last year's record high by 7.8%. Earnings increased 20.6% to \$13,727,797 or \$2.11 per share, compared with \$1.77 in 1972.

We aim always to position the company for the long term, so that today's progress generates greater momentum for tomorrow. Therefore, while the degree of profit growth in 1973 is gratifying, the more important point is that we have again increased the potential for substantial further performance gains for Walgreen Co.

While federal regulations of Phase IV impose new limitations on the ratio of profits to volume, with more restrictive controls than Phases II and III, we are confident in the ability of our organization to adapt to circumstances and achieve satisfactory results within Phase IV requirements.

A strong point of advantage today is in the increased profitability of our retailing groups—drug stores, department stores, and restaurants—resulting from our program of divesting the company of units not meeting our productivity standards. In fiscal 1973 34 Walgreens, 2 Globes and 4 small fast-service restaurants were closed.

Meanwhile our selective expansion program, again concentrated in strong Walgreen markets, saw the

HIGHLIGHTS OF 1973:

	1973	1972	%
SALES	\$930,898,958	\$863,334,299	+ 7.8
EARNINGS before income taxes..	24,670,797	19,507,384	+26.5
NET EARNINGS	13,727,797	11,386,384	+20.6

PER SHARE OF COMMON STOCK:

NET EARNINGS			
—assuming no dilution*	\$ 2.11	\$ 1.77	
—assuming full dilution*	1.95	1.65	
DIVIDENDS PAID	1.00	1.00	
SHAREOWNERS' EQUITY	17.90	16.78	

**Please refer to Net Earnings
Per Common Share, page 19*

It saddens us to report the passing this summer of former company president Alvin A. Borg. His long and distinguished service and his vigorous leadership were witness to many great Walgreen years.

We miss his counsel as a member of our Board of Directors; we miss him as a friend; we take pride in his memory.

openings of 31 new Walgreen Drug Stores, including 2 Super Centers, plus 3 Globe department stores and 2 Robin Hood restaurants.

To sum up: During 1973 our total number of locations declined from 625 to 621, but with the larger average size of the new units opened, we registered an increase in total sales area and our overall prospect for sales and earnings has gained appreciably.

During fiscal 1974 we plan to open 29 new Walgreens, 2 new Globes and 3 free-standing restaurants. Our longer-range planning calls for increased capital expansion and our current progress indicates that we will be on a faster growth track by 1975.

Expansion is always a favored topic, but more significant to profitable growth is leadership in the development of a corporate ability to serve consumers better. We have attained strategic advantages with support systems such as ice cream plants, photo studios, commissaries, computer complex, physical distribution centers. And we are singularly well-equipped to excel in service and value to customers in such major areas of our operation as:

Pharmacy: As Number 1 Pharmacist to the Nation, we provide high standards of prescription service to the communities we serve, and we do it at prices well below the average. This leadership has won for us a large and loyal clientele who bring prescriptions to Walgreen Pharmacists at a rate which has already reached 27 million a year and grows daily. It has also won for us an award as the first firm in history to have filled 300 million prescriptions. That is *consumer-response* to leadership.

Manufacturing: Again, we provide a standout combination of quality and value in our Walgreen Products. Because we produce these items in our

own laboratories, we can sell them at prices advantageous both to customer and company. And again value-measuring consumers have answered by purchasing more and more Walgreen brands, giving impetus for strong further gains in 1974. That is *consumer-response* to leadership.

Franchise Division: Walgreen Agency leadership helps to guide the progress of some 1800 independently-owned drug stores, and one measure of success is the expanding number of Walgreen Agents operating multiple units. The Agency division, a major artery for Walgreen Laboratory Product sales, has again contributed significantly to company earnings, and the outlook points to accelerating growth. That is *consumer-response* to leadership.

Sanborns, Mexico: Our highly successful Mexican affiliate operates 18 retail units, plus manufacturing and wholesaling operations. Its stores and restaurants are outstanding favorites of both Mexican nationals and tourists. Sanborns is well known as *La Casa del Buen Gusto—The House of Good Taste*. In 1973 the firm enlarged two stores and opened its second Acapulco unit, the new Estrella Del Mar store. When in Mexico, do as the Mexicans do: *Enjoy Sanborns.*

The retailing field is always competitive, dynamic. But the opportunities are equally dynamic, and we have confidence that our plans and our Walgreen men and women nationwide will make the most of those opportunities.

Sincerely,



President



Above: New Corpus Christi Walgreens attracts crowds.

Left: John E. Klocke (left), Drug Store Operations Vice President, congratulates Store Manager Joseph T. Ruland (Battlefield Village Center, Vicksburg, Miss.) for outstanding achievement in sales, profit, inventory performance and internal controls. "The leadership of top store managers," beamed Klocke, "is one of our company's great resources."



WALGREEN DRUG STORES

America's number 1 drug store chain serves more customers, fills more prescriptions, sells more health and beauty aids than any other firm in the retail drug field . . .

569 Walgreen Drug Stores, in 33 states and Puerto Rico, are the thriving mainstay of our business because they provide distinctive shopping convenience with broadly diversified lines of merchandise; aid community well-being with comprehensive health and beauty centers; add to the quality of life with a consumer-oriented system of service, dependability and value.

A DRUG STORE AND MORE, BUT FIRST A DRUG STORE

Traditional drug store product lines are among the fastest-growing of consumer goods—and the momentum is accelerated by the constant proliferation of innovative new products. They are basically non-seasonal, non-cyclical. Therefore, while we build new larger Walgreens to carry a more varied, higher-margined merchandise mix, we hold always to a strong drug store identification and sales base.

WALGREENS . . . TOP CHOICE FOR SHOPPING CENTERS

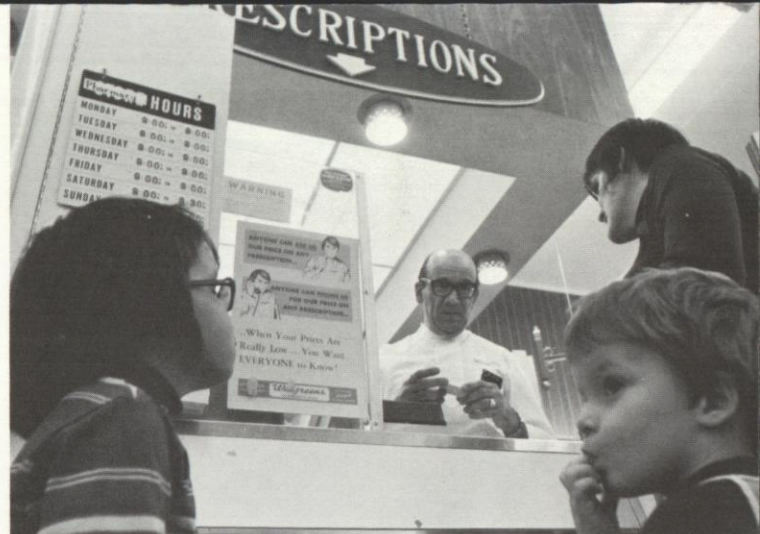
Our wide geographic base and selectivity in site location further insure our performance stability. We can afford to choose locations carefully for, as reported by *Chain Store Age* magazine, its national survey confirmed Walgreens as the preferred drug store choice of shopping center developers—by so wide a margin that the magazine noted “. . . it almost could be said that nobody was second.”

WALGREENS . . . NUMBER 1 PHARMACIST TO THE NATION

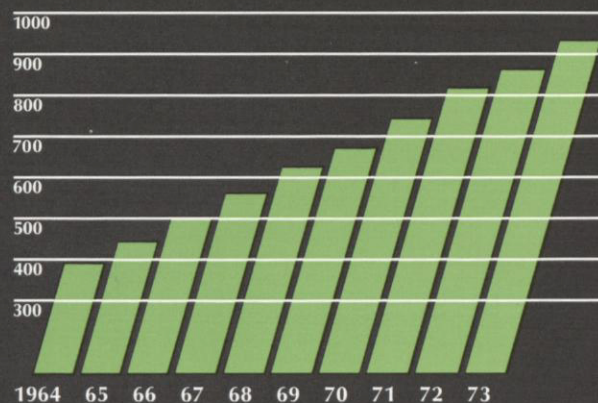
The quality and economy of Walgreen prescription service is our great pride and our first responsibility to the communities we serve. We keep it foremost in our perspective and it is also consistently foremost in our progress. The rate of our growth in pharmacy is dramatic: In 1960 our company was honored as first in the nation to fill 100 million prescriptions. Within eight years—in 1968—we received the 200 million award. And in just five years—in 1973—we vaulted to the 300 million prescription mark. In this past year alone Walgreen and Globe pharmacies filled an unprecedented 27 million prescriptions. Current and coming growth in ‘third party’ prescriptions—through unions, insurance companies, government agencies—confirms our long-term outlook for further upward momentum in prescription volume.

WALGREENS . . . NEWER, LARGER, STRONGER

- 55% growth in average size of drug stores in past 10 years.
- 88% increase in total drug store selling area in past 10 years.
- 57% of our 569 drug stores opened new within past 10 years.



SALES VOLUME—Walgreen Co.
(MILLIONS OF DOLLARS)



Above: **Houston Photo Processing Studio.**

Behind the scenes of Walgreen productivity is the capability of various support systems, including 3 regional photo studios. Continued volume growth of our original Chicago Studio led to our highly successful Houston Studio in 1969, and now to a new Denver unit to serve our western stores.



Above: Lunchtime at Walgreens . . . this busy, popular spot is our in-store restaurant, 95th & Western, Evergreen Park, Ill.



Left: Food Service Division Director John B. Seastone (right) congratulates Restaurant Manager Chester J. Samiec (recently promoted to head a Chicago Robin Hood) on his record of leadership in sales and profit and for training and development of staff people who rose to management posts.



WALGREEN RESTAURANTS

Walgreens Food Service Division serves more meals . . . to more customers . . . in more locations . . . than any other firm in the drug field. Among all of America's retail restaurateurs, Walgreen Co. ranks among the top thirty in sales volume.

Our recipe for leadership in the restaurant field is in the Walgreen tradition: Prompt and pleasant service, moderate price, and a single standard of quality—the finest. Its success is attested to by the figures: Our food services registered a new record volume of over \$71 million in fiscal 1973, contributing 8% of overall company sales.

NUMBER ONE: OUR STORE-RELATED RESTAURANTS

The 296 restaurants within or adjacent to 50% of our stores are by far our major food enterprise. Always improving in size, in attractiveness, and in sales, they also bring us an important extra dividend—our restaurant guests usually tend to shop our stores as well.

INDIVIDUAL RESTAURANTS . . . A GROWING FACTOR

A growing dimension in Walgreen food service has resulted from our expansion into free-standing restaurants, now totaling 27. These range from small fast-service units to larger, full-menu restaurants and cafeterias (including our giant 16,700 square foot L ◊ C Cafeteria in Houston).

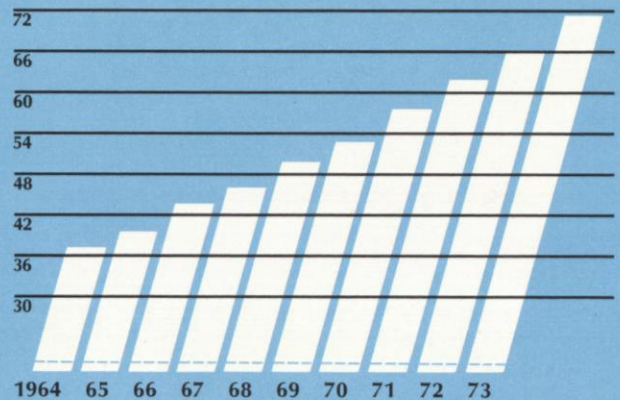
GOOD HOSTSMANSHIP . . . IS GOOD BUSINESS

Among the most promising of these units are our more recently developed *Robin Hood* and *Briargate* restaurants. These are handsome units in striking medieval decor, and feature a gracious mode of dining, with broader menus, wines and cocktails, as well as bar and lounge areas with the added appeal of evening entertainment. We are planning added units as particularly suitable locations become available. Of five Chicagoland *Robin Hood* units, for example, two are in choice downtown sites (one across from the giant new Sears building); a third borders the popular *New Town* north side area; another enjoys a suburban shopping center site, and the fifth is in a large regional shopping center in Michigan City, Indiana. Our newest *Robin Hood*, opened in August in Duluth, Minnesota, has been a resounding success from the start.

Our restaurant business has long proved profitable in its own right, and a valuable public relations factor as well, for "good food makes good friends." It is another valued sphere of Walgreen leadership, and we plan continued growth.



SALES VOLUME—Food Service Division
(MILLIONS OF DOLLARS)



Camera captures the day and night attraction of a *Robin Hood* Restaurant and Lounge. Top photo is noontime scene in the pleasant dining room, a gracious place to explore the pleasures of our menu. Lower photo illustrates the appeal to dinner patrons and late evening guests of musical entertainment in the relaxing bar and lounge.



GLOBE DEPARTMENT STORES

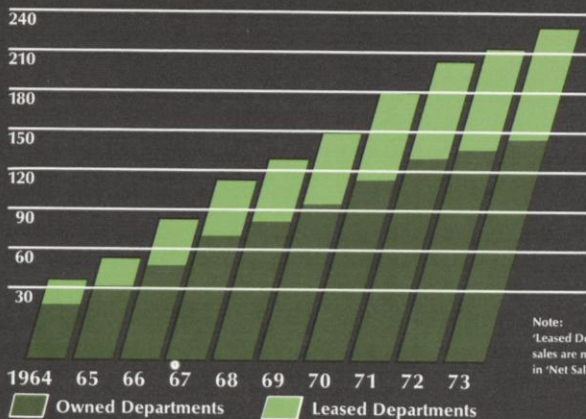
*Our 25-store Globe chain, concentrated in the 4-state area of Arizona, Louisiana, New Mexico and Texas, delivers a per square foot sales average over 60% higher than national average for comparable mass merchandisers. (National average as reported by *The Discount Merchandiser*, June 1973.)*

Most Globe units measure 100,000 square feet, feature over 90 departments, offer the one-stop shopping and easy parking that well suit the busy lifestyle of today's consumer.

Pursuing our goal of market dominance, the Globe division in 1973 opened second units in Albuquerque and Shreveport, and strengthened our southeast Texas coverage by entering the Corpus Christi market. Further reinforcing this area in 1974 will be a new Globe in Brownsville, Texas, and



SALES VOLUME—Globe Division
(MILLIONS OF DOLLARS)



our fourth San Antonio location. Two marginal units were closed in 1973, while our strong Baton Rouge unit was extensively remodeled. Projected for late '74 to '75 are added Globes for San Antonio, Phoenix, Tucson.

Next in plan for Globe are two objectives paralleling demographic projections for the late '70s and early '80s—: *One*, to branch from our major Globes into new smaller-size 'convenience units' in each market, inviting more frequent close-to-home shopping by the growing numbers of full-time working women. *Two*, to increase our departmental dominance in the areas expected to benefit most from a predicted one-third gain in discretionary consumer income. The key growth classifications include: Prescriptions, Health & Beauty, Automotive, Appliances, Soft Goods and Fashions, Sporting Goods, Photo Equipment, Music & Entertainment.

Despite intense competitive mass-merchandising expansion, Globe's market position in the fast-growing south-southwest is strong, strategic. We look for progress, plan for growth.

PHOTOS:

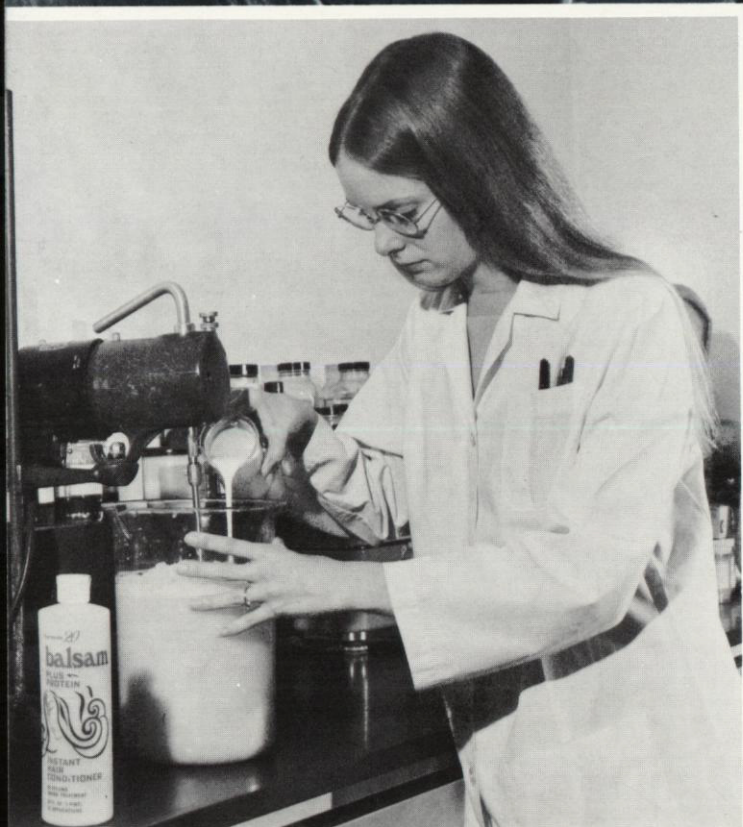
Top, left and right pages: Globe scenes in our Walgreen-developed Mission Shopping Center, Corpus Christi. Opened in 1973, the 15-acre center and its Globe and Walgreen units are off to an impressive start.

Lower left page: Globe division head George E. Jeffers (right) discusses ad with General Merchandise Manager Abe J. Ginsberg (left), and Director of Marketing, Don J. Rhine.

Lower right page: At Walgreen headquarters' Data Processing Center, James L. Pierce, Director (left), and Assistant Gerald A. Harpling, Systems Development Manager, check a Globe printout. Computer facilities for Globe support such functions as Payroll, Accounts Payable, Store Inventory Records, Warehouse Distribution System. Continuous monitoring of merchandise movement provides constant data for sales trend analysis, and has proved particularly valuable in the fast-changing women's fashions field.



Above: Battery of tablet-coating machines in Chicago laboratory, under trained eye of Coating Specialist James E. Blue.



Left: Research & Development Chemist Debra J. Fry, B.A. On display is one of her successes, *Balsam-Plus-Protein Instant Hair Conditioner*. During Debra's years of chemistry studies, she part-timed as a Walgreen Beauty Consultant, gaining cosmetic product insights she terms "invaluable".



WALGREENS LABORATORIES

Largest manufacturing complex of any drug store chain . . . producing over 500 health, beauty and household items at an estimated \$33 million rate at retail in 1973, through over 2400 Walgreen, Globe, and Walgreen Agency stores.

Walgreen private label products provide extra profitability to our company, extra quality and value to our customers. They are also a growth-producing key to success for over 1800 independently-owned Walgreen Agency drug stores. These progressive merchants profit from the competitive advantages of our exclusive brands, and also benefit from company techniques in store design, merchandising, advertising. In turn, they broaden our product distribution and national exposure by opening new markets for Walgreen brands.

PLANT EXPANSION . . . NEW SPACE FOR NEW BUSINESS

This past year we enlarged our manufacturing facilities to over 200,000 square feet, to expand our tablet production capacity and to accommodate the fast-building volume of such new lines as *Nature's Finest* health foods, vitamins, and natural cosmetics, and our recently introduced private label products for Globe stores. Our Plastic Containers Plant, now one of the major plastic blow-molding units in the midwest, was expanded by 20,000 square feet. It produces over 1½ million units a month, and provides 80% of all plastic containers we use. We have also begun to supply containers to outside companies, and we expect this new income source to continue growing. For 1974 we plan a further 50,000 sq. ft. expansion of our laboratories plus a major investment for new high-speed liquid product lines to significantly expand output and sales.

LEADERSHIP IN RESEARCH AND DEVELOPMENT

Our staff of research and development experts continues to generate immediate and future growth with a consistent flow of market-broadening new products. Over 50% of all Walgreen brands have been introduced in the past five years.

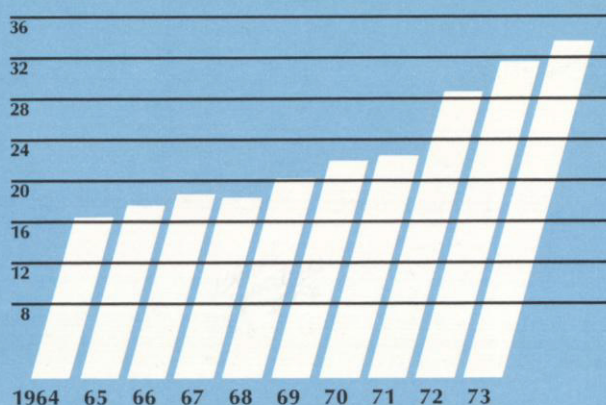
Our chemist teams have also pioneered widely noted microbiological research into preservatives for the prevention of bacterial growth in cosmetics. In the public interest we are sharing our findings from five years of experimental data with a number of top national cosmetic and pharmaceutical manufacturers. We have also instituted new bioavailability studies of medicinal products—the first by any private label manufacturer—measuring product efficacy by comparative absorption potential. And, in generic pharmaceuticals, our quality control specialists conduct constant assays to assure that any drug bearing the Walgreen name meets Walgreen standards of purity and potency.

We truly say: With pride, from Walgreens Laboratories.



SALES VOLUME—Laboratory Products

(MILLIONS OF DOLLARS, at retail*)
*estimated



Top photo: A modern Walgreen Agency brings our products to consumers in Menomonee Falls, Wis.

Lower: "W" seal (inset) on display signs and in ads aids consumer awareness of Walgreen brands; projection shelf displays promote impulse buying. Discerning customers trust the "W" for they know *When Walgreen's name is on it, quality is in it*

Victor Rodriguez . . . Chairman, Mexican-American Education Committee . . . active in 1973 in Waco, Texas Ass'n for Retarded Children, Alliance for Mexican-Americans, United Fund Budget Committee . . . a Walgreen Drug Store Manager.

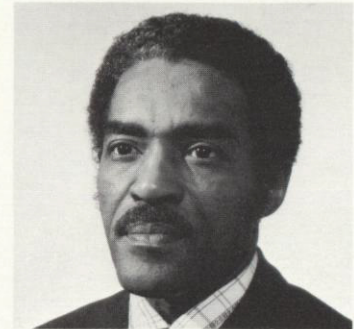


LEADERSHIP
in the community

. . . a few of so many Walgreen people who reach out to enrich the lives of others . . . and so enrich us all:



Jim Maloney . . . led referendum to reorganize Lake County, Illinois education system . . . eight years on school board . . . Promotional Director, Merchant's Association . . . President, Stick & Rudder Flying Club . . . Walgreen Drug Store Manager.



Henry Cade . . . lecturer, Chicago Free School of Business Management; on Advisory Board of Sheriff's Youth Services Department . . . Honorary Member, Illinois Drug Abuse Program . . . Assistant Director of Professional Services, Walgreen Co.



Dino DeRanieri . . . one of first California Pharmacists to bring drug education to schools . . . received state's "Public Education Achievement Award" . . . named University of Pacific "Pharmacy Alumnus of Year" & "Alumnus of the Decade" . . . a Walgreen Drug Store Manager.



Angelo Palmer . . . organized blue ribbon-winning Drug Information booth, Iowa State Fair in Des Moines . . . consultant to Sheriff on drugs . . . speaks to clubs, schools, churches, business groups . . . Chief Pharmacist, Walgreen Drug Store.

Robert Elliott . . . member of the Board of Directors, Houston Big Brothers, is chairman of the 1973 Christmas Banquet . . . toys and gifts to be distributed to more than 1200 boys, ages 8-16. . . . Toy Buyer, Globe Department Stores.



FINANCIAL INFORMATION

10 YEAR PERFORMANCE SUMMARY

YEAR ENDED SEPT. 30	PER SHARE ⁽¹⁾								
	NET SALES	EARNINGS BEFORE TAXES	FEDERAL & STATE INCOME TAXES	NET EARNINGS	CASH DIVIDENDS PAID	NET EARNINGS		DIVIDENDS PAID	SHARE-OWNERS' EQUITY
						Assuming No Dilution	Assuming Full Dilution (2)		
IN THOUSANDS OF DOLLARS					IN DOLLARS				
1973	\$930,899	\$24,671	\$10,943	\$13,728	\$6,505	\$2.11	\$1.95	\$1.00	\$17.90
1972	863,334	19,507	8,121	11,386	6,440	1.77	1.65	1.00	16.78
1971	817,487	18,209	7,608	10,601	6,414	1.65	1.59	1.00	15.99
1970	743,592	15,959	6,557	9,402	6,371	1.48	—	1.00	15.32
1969	672,886	21,708	9,595	12,113	6,353	1.91	—	1.00	14.63
1968	622,845	20,558	9,211	11,347	5,718	1.79	—	.90	13.73
1967	559,425	20,789	8,400	12,389	4,616	1.95	—	.70	12.84
1966	501,616	18,331	7,738	10,593	4,284	1.67	—	.65	11.62
1965	432,511	13,715	5,700	8,015	3,707	1.30	—	.60	10.56
1964	391,326	12,277	5,150	7,127	3,083	1.16	—	.50	9.86

⁽¹⁾ Adjusted for two-for-one stock split in 1967.

⁽²⁾ Assumes conversion of 5½ % Convertible Subordinated Debentures issued March 1, 1971.

10 YEAR GROWTH CHART (RETAIL STORES, RESTAURANTS)

YEAR ENDED SEPT. 30	NEW-UNIT OPENINGS	MAJOR REMODELINGS	CLOSINGS OR REPLACEMENTS	YEAR-END TOTALS	SQ. FT. NET SALES AREA (millions)
1973	36	18	40	621	6.44
1972	45	27	38	625	6.29
1971	38	36	33	618	6.08
1970	54	34	29	613	5.73
1969	53	38	17	588	5.19
1968	45	25	25	552	4.80
1967	37	19	26	532	4.37
1966	48	18	23	521	3.98
1965	35	25	19	496	3.50
1964	24	21	23	480	3.14

Consolidated Statements of Earnings and Retained Earnings

For the Years Ended September 30, 1973 and 1972

WALGREEN CO. AND SUBSIDIARIES

EARNINGS

	<u>1973</u>	<u>1972</u>
NET SALES	\$930,898,958	\$863,334,299
COSTS AND DEDUCTIONS:		
Cost of sales	673,419,021	626,526,098
Selling, occupancy and administration	227,208,941	211,783,862
Contribution to Employees' Profit-Sharing Retirement Trust	2,663,789	2,340,886
Interest expense, net	2,936,410	3,176,069
Federal and state income taxes	10,943,000	8,121,000
	<u>917,171,161</u>	<u>851,947,915</u>
NET EARNINGS	<u>\$ 13,727,797</u>	<u>\$ 11,386,384</u>
NET EARNINGS PER COMMON SHARE:		
Assuming no dilution	\$ 2.11	\$ 1.77
Assuming full dilution	<u>\$ 1.95</u>	<u>\$ 1.65</u>

RETAINED EARNINGS

BALANCE, beginning of year	\$ 82,672,989	\$ 77,726,641
Net earnings	13,727,797	11,386,384
Cash dividends—\$1.00 per share	(6,504,859)	(6,440,036)
BALANCE, end of year	<u>\$ 89,895,927</u>	<u>\$ 82,672,989</u>

The accompanying statement of major accounting policies and the notes to consolidated financial statements are an integral part of the above statements.

Consolidated Statement of Changes in Financial Position

For the Years Ended September 30, 1973 and 1972
WALGREEN CO. AND SUBSIDIARIES

	<u>1973</u>	<u>1972</u>
SOURCES OF WORKING CAPITAL:		
Provided by operations—		
Net earnings	\$13,727,797	\$11,386,384
Add (or deduct)—Items which do not use (or provide) working capital—		
Depreciation and amortization	7,013,135	6,813,332
Excess of equity income in investments over dividends received	(159,847)	(405,857)
Deferred Federal income taxes	<u>967,000</u>	<u>1,039,000</u>
	21,548,085	18,832,859
Net book value of property and equipment retired	2,735,869	1,511,682
New long-term mortgage obligations, net	3,105,243	—
Sales of common stock under employee stock purchase plans (61,395 shares in 1973 and 45,199 shares in 1972)	1,137,301	915,501
Other, net	<u>857</u>	<u>1,209</u>
	<u>\$28,527,355</u>	<u>\$21,261,251</u>
APPLICATIONS OF WORKING CAPITAL:		
Additions to property and equipment	\$12,017,425	10,805,990
Current maturities of long-term debt	1,252,616	1,209,688
Cash dividends paid	<u>6,504,859</u>	<u>6,440,036</u>
	19,774,900	18,455,714
Increase in working capital	<u>\$ 8,752,455</u>	<u>\$ 2,805,537</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets—		
Cash	\$ (3,455,982)	\$ 4,503,167
Accounts receivable	1,358,062	1,069,179
Inventories	5,739,497	13,297,132
Other current assets	(194,651)	48,178
(Increase) decrease in current liabilities—		
Notes payable and current maturities of long-term debt	7,757,072	(3,116,515)
Trade accounts payable	(188,320)	(7,219,580)
Other current liabilities	<u>(2,263,223)</u>	<u>(5,776,024)</u>
Increase in working capital	<u>\$ 8,752,455</u>	<u>\$ 2,805,537</u>

The accompanying statement of major accounting policies and the notes to consolidated financial statements are an integral part of the above statement.

CONSOLIDATED BALANCE SHEET

WALGREEN CO. AND SUBSIDIARIES

ASSETS	September 30 1973	September 30 1972
CURRENT ASSETS:		
Cash	\$ 8,919,293	\$ 12,375,275
Accounts receivable, less allowances of \$1,613,000 in 1973 and \$1,161,000 in 1972 for doubtful accounts	18,951,889	17,593,827
Inventories	156,091,132	150,351,635
Prepaid rent, insurance, taxes, etc.	<u>2,976,910</u>	<u>3,171,561</u>
TOTAL CURRENT ASSETS	<u>186,939,224</u>	<u>183,492,298</u>
INVESTMENTS IN OTHER COMPANIES:		
Stated at equity in underlying book values	5,281,121	5,121,274
Stated at cost (market values or equity in underlying book values— \$6,857,000 in 1973 and \$6,930,000 in 1972).....	<u>324,003</u>	<u>324,860</u>
	<u>5,605,124</u>	<u>5,446,134</u>
PROPERTY AND EQUIPMENT, at cost:		
Land and land improvements	6,468,123	6,181,216
Buildings including improvements to leased properties	18,275,112	15,769,696
Equipment	<u>93,556,305</u>	<u>89,869,402</u>
	118,299,540	111,820,314
Less—Accumulated depreciation and amortization	<u>48,644,508</u>	<u>44,433,703</u>
	69,655,032	67,386,611
	<u>\$262,199,380</u>	<u>\$256,325,043</u>

LIABILITIES

September 30
1973

September 30
1972

CURRENT LIABILITIES:

Notes payable	\$ 1,500,000	\$ 9,300,000
Current maturities of long-term debt	1,252,616	1,209,688
Trade accounts payable	50,478,441	50,290,121
Accrued expenses and other liabilities	27,074,446	27,245,094
Federal and state income taxes	6,158,649	3,724,778
TOTAL CURRENT LIABILITIES	<u>86,464,152</u>	<u>91,769,681</u>

LONG-TERM DEBT, less current maturities shown above:

4¾ % notes payable to banks, due 1975	9,625,000	10,500,000
5½ % Convertible Subordinated Debentures, due 1991.....	30,000,000	30,000,000
Mortgage obligations of subsidiary companies	10,039,836	7,312,209
	<u>49,664,836</u>	<u>47,812,209</u>

DEFERRED FEDERAL INCOME TAXES	<u>9,102,000</u>	<u>8,135,000</u>
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SHAREOWNERS' EQUITY:

Common stock, \$2.50 par value; authorized 10,000,000 shares; issued and outstanding 6,533,832 in 1973 and 6,472,437 in 1972, at stated value....	27,072,465	25,935,164
Retained earnings	89,895,927	82,672,989
	<u>116,968,392</u>	<u>108,608,153</u>
	<u>\$262,199,380</u>	<u>\$256,325,043</u>

The accompanying statement of major accounting policies and the notes to consolidated financial statements are an integral part of the above balance sheet.

STATEMENT OF MAJOR ACCOUNTING POLICIES

WALGREEN CO. AND SUBSIDIARIES

PRINCIPLES OF CONSOLIDATION:

The consolidated statements include the accounts of the Company and all subsidiaries. All significant intercompany transactions have been eliminated. The Company's investments in the minority interests in the voting stock of certain companies are carried at cost plus equity in their undistributed earnings since acquisition.

The principal portion of such investments represents the Company's 49.5% ownership of Sanborn Hermanos, S.A. and Sanborn's Monterrey, S.A.

INVENTORIES:

The Walgreen Drug Store inventories are valued at the lower of average cost or market. The Globe Department Store inventories are valued at the lower of average cost or market determined primarily by the retail method. Other inventories in manufacturing and warehousing facilities are valued at the lower of cost (first-in, first-out) or market. Allowances are provided for obsolete merchandise and estimated shrinkage.

PROPERTY, EQUIPMENT AND DEPRECIATION:

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated physical life of the property or over the term of the lease, whichever is shorter. Major repairs which extend the useful life of an asset are charged to the Property and Equipment accounts. Routine maintenance and repairs are charged against earnings. The composite method of depreciation is used for equipment; therefore, gains and losses on retirements or other disposition of assets are included in earnings only when an entire location is closed or completely remodeled.

DEFERRED FEDERAL INCOME TAXES:

The Company provides Federal income taxes on items included in the Consolidated Statement of Earnings regardless of the period when such taxes are payable. Taxes deferred due to the use of accelerated depreciation for income tax purposes and due to the excess of equity income in investments over dividends received are classified as a noncurrent liability.

INVESTMENT TAX CREDIT:

The Company reflects the investment tax credit as a reduction in Federal income taxes in the year eligible property and equipment purchases are put into service.

PRE-OPENING EXPENSES:

Non-capital expenditures incurred prior to the opening of a new or remodeled store are charged against earnings when they are incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WALGREEN CO. AND SUBSIDIARIES

LONG-TERM DEBT:

The 5½% Convertible Subordinated Debentures are convertible into common shares at the rate of 31 shares per \$1,000 principal amount. At September 30, 1973, 930,000 common shares were reserved for such conversions. The debentures are subordinated to all other borrowings of the Company. At the Company's option, the debentures are redeemable at prices ranging from 104.92% in 1973 to par in 1990. Beginning in 1982 sinking fund payments of not less than 10% or, at the Company's option, more than 20%, of the total principal amount outstanding will be required.

Under the most restrictive covenants of the Company's debt agreements (a) \$66,219,000 of consolidated retained earnings at September 30, 1973, is not available for payment of cash dividends, or for repurchase of the Company's stock, and (b) consoli-

dated net current assets must be at least \$25,000,000. Consolidated net current assets, as defined, were \$101,494,000 at September 30, 1973.

Certain of the Company's subsidiaries have mortgages payable on store, warehouse and shopping center properties having a net book value at September 30, 1973, of \$10,314,000. Interest rates range from 4% to 8¼%. In 1973, the Company completed construction and opened the Mission Shopping Center in Corpus Christi, Texas, which includes a Walgreen Drug Store, a Globe Department Store and a selected group of non-affiliated tenants. A 25-year, 8¼%, \$3,380,000 nonrecourse mortgage was obtained for the Mission Shopping Center which is secured only by the shopping center property and the assignment of leases. The remaining mortgages are obligations of real estate subsidiaries. While Walgreen Co. is not directly obligated for mortgages owed by subsidiary companies, these mortgages, except approximately \$700,000 of the Mission Shopping Center mortgage, are secured by lease agreements between Walgreen Co. and its subsidiary companies or by guarantees of Walgreen Co.

All mortgages provide for monthly payments of principal and interest and become fully paid during the years 1982 to 1998. The annual payments including interest for each of the next five years amount to approximately \$1,000,000.

CAPITAL STOCK:

As of September 30, 1973, 330,333 shares of common stock were reserved for issuance under employee stock purchase plans.

There are authorized 1,000,000 shares of a \$1 per share par value preferred stock issuable in series. The rights of this preferred stock as to dividends, redemption and liquidation will be determined when, as and if issued.

LEASE COMMITMENTS:

Net rental expense amounted to approximately \$28,900,000 in 1973 and \$26,636,000 in 1972. This related primarily to leased properties of retail locations. Percentage rentals based on retail sales were approximately \$4,365,000 in 1973 and \$4,133,000 in 1972. At September 30, 1973, rental leases, expir-

ing more than one year after that date, require minimum annual payments as follows:

(000 omitted)

Year	Total	Real Estate	Equipment
1974	\$ 21,835	\$ 21,276	\$ 559
1975	22,040	21,639	401
1976	20,279	20,005	274
1977	18,328	18,099	229
1978	16,453	16,291	162
1979-83	61,272	60,812	460
1984-88	36,345	36,345	—
1989-93	13,214	13,214	—
After 1993	4,095	4,095	—
	<u>\$213,861</u>	<u>\$211,776</u>	<u>\$2,085</u>

NET EARNINGS PER COMMON SHARE:

Net earnings per common share, assuming no dilution, were computed in both years using the weighted average number of shares outstanding during each year. Net earnings per common share, assuming full dilution, were computed on the assumption that the 5½% Convertible Subordinated Debentures were converted into 930,000 shares of the Company's common stock as of the beginning of the fiscal year, and that the related interest expense, net of its effect upon profit-sharing and income taxes, was eliminated.

FEDERAL AND STATE INCOME TAXES:

The provision for Federal and state income taxes contains the following:

	1973	1972
Federal income taxes—		
Payable Currently	\$ 9,826,000	\$7,137,000
Deferred to future periods	967,000	1,039,000
Investment Credit	(600,000)	(635,000)
State income taxes	750,000	580,000
	<u>\$10,943,000</u>	<u>\$8,121,000</u>

EMPLOYEES' PROFIT-SHARING RETIREMENT TRUST:

The Company has a retirement plan for employees known as the Walgreen Profit-Sharing Retirement Trust, to which both the Company and the employees contribute. The Company contributes 12% of an amount approximating earnings before Federal and state income taxes.

AUDITORS' REPORT

ARTHUR ANDERSEN & CO. CHICAGO, ILLINOIS

To the Board of Directors
and Shareowners of Walgreen Co.:

We have examined the consolidated balance sheet of WALGREEN CO. (an Illinois corporation) AND SUBSIDIARIES as of September 30, 1973 and 1972, and the related consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Walgreen Co. and Subsidiaries as of September 30, 1973 and 1972, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Chicago, Illinois,
November 6, 1973.

Arthur Andersen & Co.

You are cordially invited to attend the

ANNUAL MEETING OF SHAREOWNERS

Wednesday, January 9, 1974, 3:00 p.m., at Walgreens
General Offices, 4300 Peterson Avenue, Chicago, Illinois.
(Formal notice of the meeting, with proxy card and proxy
statement, accompanies this mailing to all shareowners.)

TRANSFER AGENTS:

The First National Bank of Chicago
Morgan Guaranty Trust Company, New York

REGISTRARS:

Harris Trust and Savings Bank, Chicago
First National City Bank, New York

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WALGREEN DRUG STORES
IN COMMEMORATION OF,
AND RECOGNITION FOR,
THE DISPENSING OF
300,000,000
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